



# Economic Advisory Council September 2020 Meeting Minutes

September 25, 2020  
10:00 am – 12:00 pm  
Virtual Meeting

## Agenda

9:45 am	<b>Webex conference lines open</b>
10:00 am – 10:05 am	<b>Call to Order</b> <i>Shahrokh Fardoust, Chair</i> <b>Introduction</b> <i>Thomas Kelly, Vice President Department of Policy and Evaluation MCC</i>
10:05 am – 10:10 am	<b>Overview of Meeting</b> <b>MCC response to EAC recommendations from previous EAC meetings</b> <i>Mark Sundberg, Chief Economist MCC</i>
10:10 am – 10:55 am	<b>Agriculture in MCC Analytics and Program Design</b> <i>Introductory remarks by Katie Farrin, MCC Economist</i>
10:55 am – 11:00 am	<b>Break</b>
11:00 am – 11:45 am	<b>Capturing Environmental Impacts in MCC Programs</b> <i>Introductory remarks by Ben Bryant, MCC Economist</i>
11:45 am – 11:55 am	<b>Opportunity for Public Comment</b>
11:55 am – 12:00 pm	<b>Administrative Next Steps</b> <b>New Member Recruitment</b> <i>Shahrokh Fardoust, Chair</i>
12:00 pm	<b>Meeting Adjourns</b>

Meeting began at 10:00 am Eastern time.

## Call to Order, Introduction, Overview, and MCC response to EAC Recommendations

Shahrokh Fardoust, Economic Advisory Council (EAC) chair, called the fourth session of the EAC to order.

Tom Kelly, Acting VP for the Department of Policy and Evaluation, thanked members for their attendance and introduced the topics of discussion for this meeting, both of which impact MCC decision-making and are currently relevant to compacts in development in Malawi, Mozambique, and Tunisia.

Mark Sundberg, Chief Economist and DVP, updated the EAC on COVID impacts on MCC partner countries, and MCC's efforts to carry out its work, including signing a compact with Burkina Faso. He also reported on new MCC work applying recommendations from the EAC's previous meetings. This included:

- MCC's incorporation of benefits distribution analysis and a new institutional partnership with the Commitment to Equity Institute (CEQ). Innovations under the partnership include planned incidence analysis of MCC infrastructure projects, and incidence analysis of sub-national policy reform and public services. Expected opportunities include application to work in Indonesia, Mozambique, and Tunisia.
- Innovative analytical work to model beneficiaries at the subdistrict level examines the impact of different water and sanitation service "bundles" in Timor Leste. Per EAC recommendations, the modeling work assesses, for a given budget, alternative service bundles at the design stage in order to enhance household welfare.

## Session I: Agriculture in MCC Analytics and Program Design

The Chair opened the session, and Katie Farrin, EA Economist, introduced the issues for discussion. (*See accompanying Topic Note: [Agriculture in MCC Analytics and Program Design](#).*) To date, agriculture has occupied a small share of MCC's program portfolio. This outcome may owe to analytical approaches that do not fully capture agriculture's contribution to economic growth. How can MCC adjust its methods in recognition of agriculture's large share of partner countries' labor and the large share of poverty that is rural? And what role can investments in programs supporting agribusiness play in unlocking productivity growth while also reducing rural poverty?

Guest presenter Will Martin, Senior Research Fellow at the International Food Policy Research Institute, offered a response to these issues. (*See accompanying slides: [Comments on MCC Agriculture Analytics and Program Design](#).*)

- MCC's use of the Hausmann, Rodrik, Velasco(HRV) growth diagnostic tree usefully guides analysts through a suite of empirical tests for detecting growth constraints, but the data relied upon to conduct such tests typically do not reflect issues in agriculture.

- Research on structural transformation in Africa reveals that the huge gaps in productivity between workers in agriculture and the rest of the economy significantly drive poverty in the region.
- If MCC's analytical work does not explicitly account for agriculture-specific constraints or compare ag-sector constraints to non-ag sector constraints, it may well miss critical bottlenecks to economic growth in countries with large ag sectors.

The following points were shared during the ensuing discussion:

- *Agriculture and Economic Growth.* MCC should recognize agriculture's key role in every society's broader economic and social transformation, including labor shifts and city growth. For example, Mozambique today in many ways resembles the United States in the 1800s. Threats to sub-Saharan Africa's agricultural productivity include climate change, its diversity of climate and soils that impedes the geographic scalability of research, and lagging know-how of farmers due to weak extension and education services. Meanwhile, evidence shows that productivity growth in agriculture lowers food prices and, ultimately, a country's overall price level, improving competitiveness and opening doors to greater export-led growth opportunities.
- *Accounting for Agriculture in MCC Analytics.* Explicitly addressing constraints to the agriculture sector makes sense, most clearly in countries where labor is predominantly employed in agriculture. This may require an adaptation of the growth diagnostic or an expansion of the broader constraints analysis to include agriculture. Special attention should go to understanding the needs of small and medium size farmers, the role of spillovers among them, and questions of distribution and equity that may disproportionately affect them. Attention to farmers' behavioral responses to interventions is important, particularly with respect to issues of risk and uncertainty.
- *Sources of Information.* Conversations in capital cities and data sets like the World Bank's Doing Business and Enterprise Surveys can obscure specific challenges facing agriculture. Alternative data sources, including the World Bank's Enabling the Business of Agriculture data set, can capture more precisely the regulatory constraints facing small-holder farmers and commercial agriculture enterprises. Measurement issues, moreover, deserve concern, particularly macro-level farm income statistics which do not account for seasonal work in services and potentially bias estimates downward.
- *Returns to Investment.* The payoffs to agricultural research are high, and sub-Saharan Africa currently underinvests in this critical input, as well as other productivity enhancing investments such as irrigation, rural roads, and useful information technologies. It is important to note that the goal of these investments should be to raise agricultural productivity, not the sector's size.
- *Policies and Social Protection.* Agriculture policies can often lead to unintended and undesirable consequences. Evaluating the regulatory and support landscape to identify harmful policies is critical. Simultaneously, considering the labor impacts of productivity improvements in the short-run, social safety nets can help unemployed workers absorb the shock of new, labor-saving technologies.
- *Agriculture and the Private Sector.* Too often, analytical work dichotomizes the farm sector and the private sector. While farming has unique challenges, most small holders operate like small businesses. MCC's analysis should reflect this reality.
- *Land in Agriculture.* Issues of land tenure complicate agriculture productivity growth and require careful attention. This leads to questions of land reform and the policies and technologies that shape its use, ownership, and transactions. Similarly, incentives are missing to cluster small plots into larger operating units to achieve scale economies. However, careful attention must be paid to

the impact of policies and technologies on the displacement of farmers, not just from the agricultural sector, but from the very land they own and cultivate.

- *Food Security and Food Demand.* Increasing productivity and securing food supplies are not mutually exclusive goals. Concerns that commercial agriculture might immiserate poor farmers pale before the fact that higher productivity implies greater quantities of cheaper food.
- *Addressing demand.* Supply side concerns are real, but demand side is also important. For export markets in particular, investments in compliance with international standards of safety and other attributes can open large markets for agricultural producers in sub-Saharan Africa.

## Resources shared during the discussions

- [USAID's Flagship Agriculture-Focused Legal and Regulatory Analytical Tool](#)
- [Precision Agriculture for Development](#)
- [Agriculture Powering Africa's Economic Transformation](#)
- [Effects of Season Migration on Households during Food Shortages in Bangladesh](#)

## Session II: Capturing Environmental Impacts in MCC Programs

The Chair opened the session, and Ben Bryant, EA senior Economist, introduced the issues for discussion. (See *Topic Note: [Capturing Environmental Impacts in MCC Programs](#)*.) There can be important connections between project performance, economic performance, and the state of the environment, and MCC is interested in improving these within its cost-benefit analysis (CBA). Quantifying these impacts, identifying an appropriate discount rate, accounting for impacts felt outside the country of analysis, and adequately capturing the uncertainty around these outcomes present challenges given MCC's constraints in time, resources, and institutional objectives. The case of Tunisia, an MCC partner country, illustrated some of these challenges associated with valuing and conserving water resources in the face of a changing climate.

EAC member Jeff Vincent, Professor at Duke University, presented comments on MCC's Topic Note.

- The use of *declining* discount rates when valuing environmental impacts over long time horizons has now been endorsed in the economics literature by a range of experts, and its application has been demonstrated (e.g. in France and the UK).
- Decision making on projects should go beyond simple cost-benefit analyses (ERRs) and should explicitly address risks, including risks to project impacts on the environment and the natural capital stock. This helps illuminate a project's long-run sustainability.
- Incorporating sustainability into project appraisal would require estimating a project's impacts on capital stocks (i.e. natural, physical, human), with those impacts valued using forward-looking prices for the stocks. This analysis could be separate from the CBA but considered along with it.

EAC member Vinod Thomas, Professor at the National University of Singapore, also presented comments. (See *accompanying slides: [CBA and the Environment](#)*.)

- While calculating CBAs is valuable, a CBA that omits environmental impacts can be worse than doing no CBA at all. It can present a highly distorted view of project impact and a false sense of precision.
- It is critical to internalize externalities in CBA modeling, to capture the costs and benefits that are not priced in markets (e.g. carbon emissions, much as Nordhaus's proposed carbon tax).
- Especially where benefits accrue over a long period of time, the choice of a reasonably low discount rate too is important (e.g. climate benefits, much as Stern's proposed discount rate).
- Counting externalities is largely doable now with progress on the data side.
- Applying CBAs effectively may require a longer time horizon than MCC uses.

EAC member Allen Blackman, Principal Economic Advisor at the Inter-American Development Bank, also presented comments.

- An important purpose behind conducting CBAs is to explicitly account for a project's assumptions and measures. Sensitivity analysis is critical.
- Different modeling platforms offer different perspectives.
- Decision Making Under Deep Uncertainty (DMDU) provides extreme sensitivity analysis that is best used in projects that suffer from deeply uncertain parameters. Running the model over hundreds or thousands of scenarios identifies robustness of investments to the greatest uncertainties, and associated trade-offs.
- Other analytic platforms build cost-benefit analysis in, incorporating environmental and natural capital factors, and help track waste, emissions, and environmental services.

The following points were shared during the ensuing discussion:

- *Accounting for regional impacts.* MCC should account for environmental impacts beyond partner country borders, e.g. carbon emissions of projects. Climate effects require a regional, if not global, analysis. Some new research has shown how to disaggregate the burdens of emissions at the regional level.
- *Tunisian water management strategies.* MCC's analysis of water resources must first specify a target aquifer level or tolerable range. From here can estimate of rates of recharge and depth of drawing, accounting for the economic value of water. This is needed to estimate (rise in) water value and recharge rate.
- *Capturing uncertainty.* Sensitivity analysis across parameter values is useful, but consider a complementary strategy to address worst-case scenarios. "Min-Max" approaches capture the impacts of extreme outliers on priority outcomes. As the range of possible outcomes grows the transparency of the analysis is more important for explaining why a particular decision ultimately is needed.
- *Discount rates.* Given the existential importance of climate change and pollutants MCC may consider applying different approach to discount rates related to environmental impacts. But must be fully transparent. MCC should also value costs and benefits more comprehensively (country, region, global).
- *MCC current practice and challenges.* On uncertainty, MCC performs Monte Carlo simulations over a distribution of parameter values (but generally omits cross-border effects). Regarding

discount rates, long gestation investments (e.g. with benefits in outer years such as many environmental interventions or early childhood development) are less likely to pass MCC's ten percent minimum hurdle rate due to heavy discounting and use of a 20-year time convention.

- *What other constraints are there to environmental impact accounting in MCC CBAs?* Staff noted that MCC integrates assumptions and benefit streams used in cost-benefit analysis models into its monitoring and evaluation. Extending included CBA impacts beyond partner country boundaries or to longer-term horizons creates challenges, requiring heavier reliance on modeling rather than data collection on beneficiary outcomes. Addressing regional impacts is complicated by beneficiaries that often include neighboring countries with whom MCC has no working relationship. Competing models of environmental impact compound uncertainty and can introduce wide ranges of possible outcomes, complicating representation in a single ERR.

## Opportunity for Public Comment

Following the conclusion of the second topic, the Chairman asked for members of the public participating remotely to come forward for comment. No comments were made.

## Administrative Next Steps and Adjournment

The Chief Economist announced the upcoming renewal of the EAC charter and the call for applications for EAC membership. The next EAC meeting is expected to take place in early 2021.

The meeting adjourned at 12 pm.

## MCC Economic Advisory Council Members Present

- Allen Blackman, Inter-American Development Bank
- Pedro Carneiro, University College London
- Shantayanan Devarajan, Georgetown University
- Shahrokh Fardoust, College of William and Mary
- Raquel Fernandez, New York University
- Louise Fox, University of California-Berkeley
- Alan Gelb, Center for Global Development
- Nora Lustig, Tulane University
- Celestin Monga, Harvard University
- Vinod Thomas, National University of Singapore
- Jeffrey Vincent, Duke University
- Michael Woolcock, World Bank

## External Participants Present

- Will Martin, International Food Policy Research Institute

## **MCC Economic Advisory Council Members Absent**

- Emmanuelle Auriol, Toulouse School of Economics
- Rema Hanna, Harvard University
- Martin Ravallion, Georgetown University
- David Robalino, IZA
- Justin Sandefur, Center for Global Development
- Matthew Andrews, Harvard University
- David Dollar, Brookings Institution